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RUEHFR/AMEMBASSY PARIS 1299
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RUEHKO/AMEMBASSY TOKYO 0514
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SUBJECT: WESTINGHOUSE STILL IN THE GAME AFTER SARKOZY SPLASH

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1D. 07 PRETORIA 3078

11. (SBU) SUMMARY: French President Nicholas Sarkozy led a senior commercial delegation on his state visit to South Africa February 28-29. He succeeded in catalyzing a media campaign of announcements of French cooperation and deals focused on the troubled energy sector, thereby seeking to advance Areva's bid for new nuclear build, to the disadvantage of competing bidder Westinghouse. Westinghouse is still "in the game" and optimistic, but is eager for increased USG advocacy support - in addition to the DOC advocacy plan already underway. Septel will report on the political aspects of the French state visit. End Summary.

"Eskom's French Kiss"

12. (SBU) French President Nicholas Sarkozy was accompanied by 40 senior business executives, including Areva, EDF, and Alstom, on his February 28-29 state visit to South Africa. His visit was crafted to advance economic and commercial bilateral ties, particularly in energy. "We will fight to get the overall power plant market, coal and nuclear," Sarkozy told a meeting of representatives of South African and French Companies in Cape Town on February 29. Westinghouse and Areva are competing for nuclear power plant supply contracts in South Africa in a first tranche of 3,500 MW and in a second tranche of a fleet of up to 20,000 MW through 2025, potentially worth up to \$133 billion (Refs C and D). The recent power supply crisis has created a greater sense of urgency, although new nuclear power plants will come on line over a long time frame (Ref A). Sarkozy and the French delegation were able to orchestrate the following announcements over the course of the visit, intended to advance the Areva bid:

- - State electricity supplier Eskom announced a contract with Alstom to provide six turbines at the new Bravo coal-fired power plant in the northern province of Mpumalanga (worth \$2 billion). Alstom is already furnishing six

turbines for the new Medupi coal-fired power plant in Limpopo, also in the north. Alstom announced intent to source at least 50 percent of the combined contracts locally.

(Note: Hitachi Power Africa, which won the lucrative boiler contracts for the Medupi and Bravo plants, has as a 25 percent shareholder empowerment firm Chancellor House, which was exposed as a front for the ANC. End Note.)

-- Sarkozy offered to immediately send a team of engineers to help Eskom overcome the power supply crisis and its technical skills shortage.

-- Sarkozy announced his intent to establish an investment fund of Euro 250 million to assist French companies to invest in the South African renewable energy and high technology sectors. He urged South African businesses to change their "Anglo-Saxon mind-set" and look upon France as a reliable investment and trading partner.

-- Areva signed a number of nuclear skills development agreements with South Africa's Nuclear Energy Corporation (NECSA). Areva said that a joint venture between Areva and Q(NECSA). Areva said that a joint venture between Areva and NECSA would increase training in technology and energy of disadvantaged South Africans. The companies also agreed to extend an existing program to train nuclear engineers in France.

-- Eskom and the French development agency AFD signed a financing framework agreement as a precursor to the conclusion of a Euro 100 million, 20-year loan for the financing of Eskom's new wind farm project in the Western Cape.

-- Areva Transmission & Distribution Automation announced intent to work with its partner Alstom South Africa on smart-metering and smart-grids to help the SAG implement its National Response Plan to curb energy usage by residential customers. Alstom SA recently completed Eskom's new National Control Center.

-- Areva and Rio Tinto Alcan signed a contract to build a conversion sub-station to supply direct current for Rio Tinto's new aluminum smelter in Port Elizabeth (worth Euro 80 million). The status of this project has been uncertain with recent power supply woes.

-- Areva announced its intent to partner with various entities in South Africa to build the EPR (new nuclear power plants) fleet and develop different aspects of the nuclear industry, from manufacturing and uranium beneficiation. Areva built the twin reactors for South Africa's Koeberg nuclear power station near Cape Town, and has sought to convey the perception that this gives it a head start for the new tender.

Westinghouse Still in the Game

¶3. (SBU) Westinghouse Regional Vice President Rita Bowser told Energy Officer on March 3 "we are still in the game and we are holding are own," and they aimed to fight hard and counter the French messages. She observed that Sarkozy and his delegation did what was expected and accomplished what they have done elsewhere, noting that many of the announced agreements were recycled old ones or announcements of intent.

Bowser said that Westinghouse was in negotiations with Eskom during the visit and their interlocutors said they had received no instructions to change the process. She stated Eskom would submit its technical recommendation to the SAG in June, after which there would be some sort of political vetting before the final decision.

¶4. (SBU) Bowser outlined a number of actions Westinghouse had taken or intended to take to counter the French splash. Westinghouse briefed Commerce Assistant Secretary Israel Hernandez in advance of his March 10 visit to South Africa.

Westinghouse has asked the Secretaries of Energy and Commerce to write letters in their behalf. Westinghouse just signed a technology sharing terms of reference agreement with NECSA. She said Westinghouse was close to signing a new shareholders agreement for the Pebble Bed Modular Reactor (PBMR), where Westinghouse holds a 15 percent share. The signing could offer another hook for a public announcement. Bowser hoped that the USG could seek opportunities to highlight messages such as the U.S. and Japan representing the number one and two export markets for South Africa. She expressed the desire that the USG would facilitate some opportunities for "human interaction" advocacy on Westinghouse's behalf.

COMMENT - What is the "U.S. Package"?

15. (SBU) It will be a challenge to overcome the high-level and timely French advocacy on behalf of the "French package", which will have made a strong impression on senior SAG officials who will have the last voice in the political vetting of the new nuclear build tender. Department of Qvetting of the new nuclear build tender. Department of Minerals and Energy (DME) Chief Director: Nuclear Tseliso Maqubela asked Economic Counselor in a meeting last year: "what will be the U.S. package?" referring to the new nuclear build tender. Westinghouse is a strong contender for the tender on merit, particularly with respect to its proposals for localization, technology transfer, and training, for which it can point to its track record in Korea and elsewhere. For example, with respect to ASGISA (Accelerated Shared Growth Identification for South Africa) criteria, Westinghouse competes strongly, as it has quantified up to 2500 new jobs from its localization scheme. Embassy organized a dinner in February for Westinghouse Senior Vice President Dan Lipman to present Westinghouse's localization proposal to SAG officials from four relevant Departments. At the dinner, Department of Public Enterprises Director: Special Projects Edwin Ritchken told Economic Counselor the tender decision would be based on "the fuel cycle", which could broadly include fuel enrichment and processing and spent fuel reprocessing. Although the new nuclear build tender does not specifically include these items, the SAG draft energy policy from last year calls for potential beneficiation and self-sustainment in these areas, and the "French package" may extend the "fuel cycle" at both ends to include these. The Westinghouse proposal includes broad and sophisticated fuel technology and manufacturing, but not/not enrichment and fuel reprocessing.

16. (SBU) The USG could consider building on the DOC advocacy campaign underway with additional contacts. For example, Minister of Minerals and Energy Buyelwa Sonjica will be leading the SAG delegation at the Washington International Renewable Energy Conference (WIREC) March 4-6. State, DOC, and DOE officials could take advantage of this opportunity to express USG support for Westinghouse. Post is also working with DOC, SAG, and Eskom to organize an ASME (American Society of Mechanical Engineers) standards conference to encourage South African nuclear suppliers to adopt ASME standards as a means to participate in Westinghouse's global supply chain.
BOST